

MEMORANDUM OF AGREEMENT

between

CHINESE NATIONAL RELIEF AND REHABILITATION ADMINISTRATION

and

MAJOR GENERAL C. L. CHENNAULT AND WHITING WILLAUER

The parties to this agreement are the Chinese National Relief and Rehabilitation Administration, hereinafter called CNRRA, and Major-General C.L. Chennault, U.S.A. (Ret'd) and his partner Mr. Whiting Willauer, formerly Director of the Far Eastern Branch of the U.S. Foreign Economic Administration, hereinafter called Chennault and Willauer.

WHEREAS:

1. CNRRA requires air transport consisting of a fleet of about 12 operating planes in connection with the distribution of relief supplies and the rehabilitation of the devastated areas of China. CNRRA is ready and able to acquire through UNRRA the planes and equipment for such purpose, at a cost not to exceed US\$8,000,000 which has been allocated by UNRRA. It is expected that UNRRA will further provide foreign exchange requirements for pay of foreign personnel and procurement of fuel and other foreign supplies up to the amount of US\$1,000,000.
2. CNRRA has found Chennault and Willauer, due to their long experience in aviation and transportation problems in China, competent and has ascertained that they are available to organize and operate the type of air transport service needed by CNRRA, and has found that they are available to enter into a contract whereby their services will be employed to do this work.
3. Chennault and Willauer have agreed that they will accept as sole compensation for their services the profit, if any, from the operation, and will bear any losses which may arise. They have also agreed to raise a working fund of US\$1,000,000 which they will furnish without obligation to CNRRA.
4. Chennault and Willauer have agreed that their services with CNRRA and the operation of the air transport service will terminate simultaneously with the termination of the life of CNRRA.
5. Chennault and Willauer understand that the service will be used as far as possible only by CNRRA, and to this end it has been agreed that the only passengers or cargo to be carried from coastal points to the interior shall be non-commercial relief and rehabilitation cargo or passengers and that commercial cargo and passengers shall not be carried on such inbound flights.

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NOT THEREFORE:

1. CHENNAULT AND WILLAUER AGREE ON THEIR PART AS FOLLOWS;

- a. To organize an air transport service for CNRRA which shall function as part of CNRRA's activities and shall be known as CNRRA AIR TRANSPORT (CAT).
- b. The service shall have an operating strength at all times of approximately 12 planes, consisting in part of C-47's and in part of C-46's, in such proportion as to permit the most efficient type of operation.
- c. To set up an organization capable of efficiently operating the fleet of planes.
- d. To arrange for the furnishing of sufficient working funds for the operation, estimated to be approximately US\$250,000 in the initial stages, plus an additional US\$750,000 during the balance of the operations, or a total of US\$1,000,000.
- e. To collect all revenue from the operation and to pay from the US\$1,000,000 working fund raised by them and the revenue all expenses of the operation and in addition to pay to CNRRA the entire cost of the planes and equipment furnished plus interest, all as provided below in the amortization provisions. Any balance of revenue remaining after these payments shall be retained by Chennault and Willauer for repayment of the \$1,000,000 working fund and as compensation for their services.
- f. To continue the operation until the cessation of the activities of CNRRA.
- g. It is understood and agreed that no right to operate beyond this period has been granted by CNRRA or the Chinese Government.
- h. To give to CNRRA cargo and personnel top and over-riding priority on all space at all times, subject to reasonable notice by CNRRA of its requirements.
- i. To charge for transportation CNRRA cargo at the freight rate of US\$0.90 per ton mile, except that for the first ten percent of CNRRA utilization of each month of one way flights to the interior the cargo rate shall be US\$0.46. CNRRA passengers shall be charged at a rate below the regular CNAO and CATC fares charged to the general public which shall be in the same proportion as the reduction made for cargo. Each passenger shall be given a free allowance for baggage of 35 pounds, and any excess shall be charged at the CNRRA cargo rate. Charges to CNRRA shall be payable in Chinese National Currency at the official rate prevailing on the date of payment. All charges to CNRRA shall be payable weekly, except that 25% of each week's bill will not be paid by CNRRA until the monthly settlement provided hereinafter in connection with the amortization payments, and also to provide a fund for making any needed adjustments.

j. All space from the interior to coastal points not required by CNRRA shall be sold to the public at the same rates as are charged by CEAC and CATC for freight and passengers. All requirements, rules, and regulations, including custom inspections, of the Chinese Government shall be complied with by CAT.

k. To establish a main base at Canton for furnishing service primarily to the points named in paragraph 3a below, and to provide for operations required to points other than those named from the Canton base, or from Hankow, or Shanghai, or from other points to be mutually agreed upon. On flights from Canton to Shanghai or vice versa relief and rehabilitation passengers and cargo shall only be carried. The same shall apply to flights from Shanghai or Canton to Hankow and from Hankow to interior points.

l. to pay amortization charges to CNRRA for the cost of planes and equipment furnished by CNRRA or UNRRA as follows:

- (1) The amortization charges shall be paid in eighteen months.
- (2) The amortization charges shall be payable monthly with interest on the amounts which are from time to time unpaid towards the amortization charges at the official government rate of interest which interest is approximately 10% per annum.
- (3) Each month's amortization charge shall be computed by ascertaining the cost of planes and equipment delivered at the operating bases of CAT in the calendar month previous to the month of settlement. This cost figure shall be divided by the number of months remaining between the settlement date and the expiration of an eighteen months period from the effective date of this agreement. Amortization charges computed to be due shall only be payable each month in proportion to the cumulative number of planes which have been delivered up to the end of the calendar month previous to the month of settlement compared to the total of 12 operating planes in the operating fleet.
- (4) Outstanding freight charges earned by CAT from CNRRA but unpaid at the end of each month shall be offset against monthly amortization charges payable, and cash payment either way shall be made in accordance with balance struck. The computation of balances shall be made in U.S. dollars but payments shall be made in Chinese National Currency at the then prevailing rate.
- (5) In proportion to payment of amortization charges title to the planes and equipment shall be transferred from CNRRA to Chenault and Willauer on the date of the termination of their services to CNRRA which together with cash profits, if any, shall be the compensation for their work, services, and for the working fund of 1,000,000 which they raised and devoted to the operation and for the risk of financial loss which they and their backers have assumed.

(6) Any planes and equipment for which amortization has not been fully paid at the termination of the operation shall be at the disposal of CNRRA or its successors under the direction of the Executive Yuan, and Chennault and Willauer shall have no claim whatsoever against these.

m. Any claim or liability arising from any accident shall be borne by Chennault and Willauer out of their share of the assets such as the working fund and the interest which they have acquired in the planes and equipment through amortization payments. CNRRA shall have no obligation or liability with respect to personnel and all other liabilities and expenditures of CAT other than these agreed upon herein.

2. CNRRA AGREES ON ITS PART AS FOLLOWS:

a. To employ Chennault and Willauer to operate the air transport service for it under the terms herein set forth.

b. To delegate ^{to} ~~the~~ Chennault and Willauer the entire responsibility for the operation and business of CAT in accordance with the provision of this agreement.

c. To procure and deliver to CAT through an allocation of funds of US\$2,000,000 by UNRRA, the planes, supplies and equipment requisitioned from time to time by CAT for its operation. It is understood that Chennault and Willauer will make all necessary arrangements on behalf of CNRRA for the procurement and delivery.

d. To turn over to the operators of CAT the entire use of said planes, supplies and equipment.

e. To use its best efforts to obtain from UNRRA an additional allocation of US\$1,000,000 for payment of foreign exchange requirements for wages of personnel and procurement of supplies. Such allotment shall only be turned over to CAT in proportion to CNRRA's use of CAT's services, compared to commercial use. Any such allotments obtained by CAT shall be credited against CNRRA's freight charges.

f. To support the operation in every manner within its power, and more particularly, in so far as possible by:

(1) Assisting in arrangements required to be made with national or local government officials.

(2) Arranging for exemption from taxes, customs duties, and other charges of the national or local governments wherever such exemptions are customarily applied to relief and rehabilitation activities, and in proportion to CNRRA utilization of the air transport service.

3. CNRRA and CHENNAULT and WILLAUER AGREE AS FOLLOWS:

a. Regular operations contemplated shall include the following points, via any other points necessary for operational efficiency:

CANTON
NANCHANG
SHANGHAI

HANKOW
KWEILIN

HONGKONG
LIUCHOW (Kwangsi Province)

Other regular operational points shall be subject to future mutual agreement. CHNRA shall have no obligation to provide return cargo or passengers from these points and shall only be required to pay return freight when space is actually used.

b. Operations to points other than the above listed regular operational points shall be made on a round trip charter basis, and CHNRA SHALL obtain the necessary permits from the Ministry of Communications. CHNRA shall pay for these special charter trips on the basis of three tons of cargo round trip on C-47's and six tons round trip on C-46's. On all such charter trips over 300 miles one way, the weight of extra gas carried to complete the round trip will be charged as cargo and paid for as such by CHNRA. On flights to dumping the gas provision shall apply but no round trip guarantee is required.

c. For all purposes in this contract the ton shall be 2000 U.S. pounds and the mile the U.S. Statute mile required to be flown for safe and efficient operations between the points in question.

d. At any time during the life of the contract Chennault and Willauer shall have the option in lieu of payment of amortization charges to purchase the planes and equipment by payment of the delivered cost less amortization charges already paid.

e. CHNRA shall audit the accounts of CAT in connection with the freight charges due by it and amortization payments. CAT will furnish monthly reports to CHNRA of the condition and the progress of the operations and will submit to regular periodical inspections to ascertain whether the operations are being conducted in accordance with the provisions herein.

f. Any dispute arising under this agreement shall be submitted to an arbitration board composed of one member chosen by CHNRA, one member chosen by Chennault and Willauer, and a third member chosen by the other two members. The decision of said board shall be final and binding.

g. This contract shall become valid upon notification to CHNRA of approval by the Executive Yuan.

IN WITNESS WHEREOF THE PARTIES HERETO HAVE HERETO SET THEIR HANDS AND SEALS
THIS _____ DAY OF _____ 1946.

C. L. CHENNAULT

CHNRA
BY

WHITING WILLAUER

HO PAO-SHU